

Committee on Ways and Means

H.R. 4096, *Stealth Tax Relief Act of 2005*

Summary

- H.R. 4096 extends the higher Alternative Minimum Tax (AMT) exemption levels by one year (through 2006) and indexes these amounts to reflect inflation. Without action, the AMT exemption amounts will fall from:
 - \$58,000 to \$45,000 for married couples and
 - \$40,250 to \$33,750 for single individuals.
- Failure to extend the higher AMT exemption amounts will affect 19 million taxpayers in 2006 (i.e., 14 percent of all taxpayers).

Background

- There are two parallel tax systems under current law: the regular income tax and the AMT. Taxpayers must calculate both and pay the higher of the two amounts. To calculate the AMT, many tax preferences are disregarded, and a tax rate of up to 28-percent is imposed on all income above the exemption levels.
- The AMT was created to prevent higher-income taxpayers from wiping out their tax liability through tax credits, deductions and other preferences. However, the exemption levels are not adjusted annually for inflation. As a result, the AMT affects more middle-income families each year.

Republican Achievements

- House Democrats retroactively increased the AMT rate in 1993. Although they raised the exemption level by \$5,000 (\$3,750 for single individuals), they did not use this opportunity to index the exemption levels for inflation.
- Since 2001, Republicans increased the AMT exemption amounts by a total of \$13,000 for married couples and \$6,500 for single individuals. These increases ensure that families are not hit by the AMT as a result of the 2001 and 2003 tax relief laws.

Budget Effect

H.R. 4096 reduces revenue by \$12.5 billion in FY2006 and by \$31.2 billion over five years.